

# The Economic Impact of Small Businesses

By any measure, small businesses make large contributions to the American economy. Including the self-employed, small businesses account for 58 percent of the private, nonfarm work force, contribute 43 percent of all sales in the country, and generate 51 percent of the private gross domestic product. Small businesses contributed a major share of the millions of new jobs created during the late 1990s.

(Sources: Bureau of Labor Statistics; SBA Office of Advocacy-funded report, 1997; U.S. Census Bureau)

## Number of Businesses

In 1999 there were an estimated 588,900 new employer businesses -- an 8.8 percent increase over 1991. Business closures were an estimated 528,600.

The number of U.S. business tax returns has increased 70 percent since 1982. In 1999, there were approximately 24.8 million nonfarm businesses, of which 99 percent were small by SBA size standards. These included corporations, partnerships and sole proprietorships.

Business bankruptcies declined to 37,639 in 1999 from 44,197 in 1998 -- a drop of 14.8 percent.

This was the lowest level since at least 1980. Small businesses -- those with fewer than 500 employees -- increased from 4.95 million in 1988 to an estimated 5.8 million in 1999, a 17 percent rise.

(Sources: Advocacy estimates using Census Bureau and U.S. Department of Labor data; Internal Revenue Service; Administrative Office of the U.S. Courts)

## Women-Owned Businesses:

- The number of women-owned businesses increased 16 percent from 1992 to 5.4 million in 1997, compared to about a 6.5 percent increase in the total number of all businesses.
- Women-owned businesses generated \$819 billion in revenue, an increase of 33 percent between 1992 and 1997.
- Some 7.1 million employees (or about 7 percent) worked for women-owned businesses, an increase of 28 percent during the 1992-1997 period.
- There will be about 4.7 million self-employed women by 2005. This represents an increase of 77 percent since 1983, compared with a 6 percent increase in the number of self-employed men.
- In 1992, 3.5 percent of all women-owned businesses, and 16 percent of those with 20-100 employees, were franchises. Women owned about 10 percent of franchised businesses.

(Sources: Census Bureau, BLS)

## Minority-Owned Businesses:

- Minority-owned businesses increased around 30 percent from 1992 to 1997, to about 3 million.
- Minority-owned businesses generated around \$600 billion in revenue in 1997.
- About 600,000 minority-owned businesses had employees.
- Approximately 4.5 million employees worked for minority-owned businesses in 1997.
- Minority-owned businesses represented about 15 percent of the total number of businesses in 1997. All minority groups -- African Americans, Hispanics, Asian/Pacific Islanders and American Indians/Alaska Natives -- had increases in the number of businesses greater than the total from 1992 to 1997.

(Source: Census Bureau)

### **Hispanic-Owned Businesses:**

- The number of Hispanic-owned businesses increased 30 percent from 1992 to 1997 to 1.1 million. Their revenues increased 49 percent over that same period.
- More than 210,000 had employees, growing 84 percent from 1992 to 1997. Their revenues grew 177 percent over the same period, to \$159 billion.
- The number of employees working for Hispanic-owned businesses grew 101 percent over the mid-1990s to 1.4 million workers.

(Source: Census Bureau)

### **African American-Owned Businesses:**

- African American-owned businesses increased 26 percent from 1992 to 1997 to 823,000. Their revenues increased 33 percent over the mid-1990s.
- The number of African American-owned businesses with employees reached 93,000 by 1997.
- More than 718,000 employees worked for African American-owned businesses in 1997, an increase of 165 percent during the last decade.

(Source: Census Bureau)

### **Asian-, Pacific Islander-, American Indian-, and Alaskan Aleut-Owned Businesses:**

- Asian- and Pacific Islander-owned businesses increased 30 percent from 1992 to 1997, reaching 913,000. Of these, 290,000 businesses had employees, which numbered 2.2 million.
- The number of American Indian- and Alaskan Native-owned businesses grew 84 percent during this period, reaching 197,000 in 1997. Of these, 33,000 businesses employed 299,000 workers.

(Source: Census Bureau)

### **Exports by Small Businesses**

In 1997 small businesses with fewer than 500 employees represented 96.5 percent of exporters of goods and contributed 30.6 percent of the value of exported goods.

Additional highlights:

- The number of U.S. companies exporting goods was 209,500 in 1997, an increase of more than 200 percent from 10 years earlier.
- California, New York and Florida each had more than 20,000 small business exporters in 1997. Alaska and Washington, D.C., had a more-than 200 percent increase in exporters from 1992 to 1997.
- More U.S. exporters sent goods to Canada than to any other country. The dollar value of those goods was also higher than goods to other countries. The United Kingdom received exports from the second largest number of U.S. businesses and Japan placed second in the value of U.S. shipments.

(Source: U.S. Department of Commerce)

### **E-Commerce**

In the field of e-commerce, an SBA report found:

- More than 4.5 million small employers (83 percent of the total employers) used computer equipment in 1998.

- The percentage of small businesses with access to the Internet nearly doubled from 21.5 percent in 1996 to 41.2 percent in 1998.
- For 78 percent of small business owners, the major reason for having a World Wide Web site is to reach new and potential customers; 35 percent maintain a Web site.
- Small businesses list cost as the major barrier to adopting e-commerce.
- In 1997 small business sales were an estimated \$3.5 billion in e-commerce, and this is projected to reach \$25 billion by 2002.
- Online retail marketing is experiencing about 200 percent annual growth, and traffic online has doubled every 100 days; however, Internet sales account for less than 1 percent of total retail sales in the U.S. economy.

(Source: Advocacy report, 2000)

### **Federal Procurement**

In fiscal 1998, the federal government spent \$195.3 billion for supplies and equipment, construction services, research and development, and a variety of other services. Prime contract awards to small businesses accounted for 20.8 percent of this total, or \$40.7 billion. More than \$33.2 billion was in contract actions of more than \$25,000 and \$7.5 billion was in contract actions of less than \$25,000.

Approximately 60 percent of all federal procurement from minority concerns comes through the SBA's 8(a) Program. In fiscal 1998, minority-owned businesses received approximately \$6.3 billion in prime contracts through the program, representing approximately 5.8 percent of all federal procurement that year.

(Source: General Services Administration Federal Procurement Data Center)

### **Income**

The income of nonfarm proprietors and partners rose to \$638.2 billion during 1999, up from \$595.2 billion during 1998, an increase of 7.2 percent. By contrast, the compensation of employees, more than half of whom work in small businesses, rose 6.7 percent during 1999.

While nonfarm proprietors' income is typically about 10 percent of total employee compensation (wages and salaries), about three quarters of small businesses are organized as sole proprietorships or partnerships. Therefore 1999 was another very good year for the income increases of a majority of small business owners, especially with inflation around 2 percent.

(Source: U.S. Department of Commerce, Bureau of Economic Analysis)

### **Employment**

The economy grew dramatically in 1999, adding almost 2.8 million new, private-sector jobs. The services sector created the most new jobs with about 1 million, followed by manufacturing. finance, insurance and real estate lost about 100,000 jobs during the year. Small businesses are generally the creators of jobs, as almost all businesses start small and many need to grow to an optimal size to minimize costs. Small businesses create about 75 percent of the net new jobs.

In 1997, 37.4 percent of the 4.4 million workers in high technology occupations (scientists, engineers, and computer programmers and analysts) worked in small businesses. This was a 15.8 percent increase over 1991's 32.3 percent.

(Sources: BLS; Census)

### **Financing Small Businesses**

A majority of small businesses have used some form of financing. The 1998 Survey of Small Business Finances showed that 60 percent of all small businesses with 1-499 employees had used trade credit. In 1998, 45 percent of small businesses used personal credit cards, up from 41 percent in 1993, and 33 percent used business credit cards.

Overall, small businesses rely more on equity capital and less on external debt capital than larger companies. Most small businesses use external financing only occasionally. Fewer than 50 percent of small businesses borrow once or more during a year. The cost of borrowed funds is higher for small businesses. Interest rates on bank loans for small businesses average 2 or 3 percentage points over the prime rate. Fixed-rate loans are usually more expensive than floating-rate loans.

Growth in small business loans in 1999 reached 6.7 percent for loans under \$100,000, 8.5 percent for loans from \$100,000 to \$250,000, and 11.8 percent for loans from \$250,000 to \$1 million.

These growth rates were smaller than those for loans larger than \$1 million, which grew at 16.5 percent.

Small business loans increased between 1999 and 2000 from 7.73 million to 9.8 million. About 26.9 percent of the increase was for loans of under \$100,000.

The 1998 Survey of Small Business Finances showed that 55 percent of all small businesses used a combination of credit lines, loans and leases, compared to 53 percent of Hispanic-owned businesses, 48 percent of African American-owned businesses, and 46 percent of Asian or Pacific Islander-owned businesses. (Source: Federal Reserve Board)

### **Innovation**

According to SBA-sponsored research:

- Small businesses produce 55 percent of innovations, twice as many per employee as large businesses.
- Large businesses receive 26 percent of their research and development dollars from the federal government; small businesses receive 11 percent.

Innovations by U.S. small businesses in the 20th century include the airplane, audio tape recorder, double-knit fabric, fiber-optic examining equipment, heart valve, optical scanner, pacemaker, personal computer, soft contact lens, and the zipper.

Innovations from small, high-tech businesses should increase in the coming years as a result of the SBA's Small Business Innovation Research Program. Federal agencies with large extramural R&D budgets must direct a share of their R&D funding to small businesses.

Since the inception of the SBIR program in fiscal 1983, almost \$6.5 billion in competitive federal R&D awards have been made to approximately 41,000 qualified small businesses. The program is growing by \$1 billion a year.

(Source: Advocacy-sponsored research, 1984)

### **For More Information**

For more information about small businesses in the economy, the fastest and easiest access is the SBA's Office of Advocacy Web site at <http://www.sba.gov/advo>, or contact:

U.S. Small Business Administration

Office of Advocacy

409 Third St., SW

Washington, D.C. 20416

Phone: 202-205-6533

E-mail: [advocacy@sba.gov](mailto:advocacy@sba.gov)

## **U.S. Small Business Administration**

SBA offices are located in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. For the office nearest you, look under "U.S. Government" in your telephone directory, or contact:

- Phone: 1-800 U ASK SBA
- Fax: 202-481-6190
- E-mail: [answerdesk@sba.gov](mailto:answerdesk@sba.gov)
- TDD: 704-344-6640
- Internet
  - SBA Home page: <http://www.sba.gov>
  - Gopher: <http://www.sba.gov/gopher>
  - U.S. Business Advisor: <http://www.business.gov>
- Your rights to regulatory fairness: 1-888-REG-FAIR

### **SBA Resource Partners**

Inquire at your local SBA office for the location nearest you.

- Business Information Centers (BICs)
- Tribal Business Information Centers (TBICs)
- One Stop Capital Shops (OSCSs)
- Service Corps of Retired Executives (SCORE)
- Small Business Development Centers (SBDCs)
- U.S. Export Assistance Centers (USEACs)
- Women's Business Centers (WBCs)

## **Publications**

- The Facts About ... SBA Publications -- a listing of free SBA publications

### **SBA – America's Small Business Resource**

Did you know that in fiscal 2000 the SBA --

- backed a record of nearly \$18 billion in financing to America's small businesses?
- approved more than 50,400 small business loans totaling almost \$12.4 billion?
- made more than 4,600 investments worth \$5.6 billion through its venture capital program Ñ a 33 percent gain over fiscal 1999?
- provided more than 28,000 loans totaling approximately \$1 billion to disaster victims for residential, personal-property and business loans?
- extended management and technical assistance to an estimated 1.23 million entrepreneurs through its resource-partner programs?
- responded to almost a quarter million telephone and e-mail inquiries at the SBA Answer Desk?

Did you know that America's 25 million small businesses --

- employ more than 58 percent of the private work force?
- generate more than 51 percent of the nation's gross domestic product?
- are the principal source of new jobs?

All of the SBA's programs and services are provided to the public on a nondiscriminatory basis.

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